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China: Excellent Agricultural Performance in 1984 and Outlook for 1985

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An Intelligence Assessment

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This paper was prepared by [redacted] the
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Key Judgments

Information available as of 1 July 1985 was used in this report.

China's agricultural production continued to increase rapidly in 1984 as a result of the ongoing restructuring of the rural economy. The total value of agricultural output rose at an impressive rate of 14.5 percent over 1983. Both grain and cotton production reached record levels for the third straight year, rising to 407 million and 6 million metric tons, respectively. The bumper harvests led China to begin exporting corn and to expand exports of raw cotton.

Agricultural reforms, begun in 1979, have been so successful in boosting production and raising living standards that policies announced in early 1985 center on controlling, rather than increasing, production. A new procurement system for 1985 grain and cotton crops, using contracts rather than state quotas, is designed to reduce the surpluses of those commodities and to stem the growing government subsidies for agriculture. Peasants will now negotiate contracts with state commercial departments for grain and cotton quantities and qualities. The state will no longer purchase amounts above the agreed upon level, and any excess must be sold on the free market or retained by the peasant. Most other crops will not be purchased by the state, allowing market forces to play a greater role in pricing and distributing nonstaple goods. The new policies are also designed to increase the quality of products available to consumers and to utilize more efficiently land and rural labor.

US grain sales to China in 1984 remained at roughly 4 million tons, falling below China's 6-million-ton commitment under the long-term grain agreement (LTA) for the second straight year. Increased Chinese grain production, relatively high US prices, and a dispute over textile import quotas left the LTA to expire unfulfilled in December 1984. Four of China's other bilateral LTAs also have expired unfulfilled and unrenewed.

Sino-US grain trade this year will be at its lowest level since 1977, probably less than 2 million tons. China's grain imports will probably remain depressed through the remainder of 1985 as Beijing continues to export surplus supplies of domestic grain and if weather continues to be good throughout the year. The decline in Chinese grain imports may be reversed in future years, however, because Beijing is both reducing government grain purchases and boosting livestock production. The impact of the new policies on production will not be clear until this fall when the 1985 harvest is in.

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Performance in 1984

China's total output value of agriculture rose an impressive 14.5 percent in 1984 to 361.2 billion yuan, far exceeding the planned target growth of 4 percent.¹ According to the State Statistical Bureau (SSB), grain production increased 5 percent to a record 407 million tons. Rural industry showed a striking gain of 36.8 percent, while forestry, animal husbandry, and fisheries showed notable increases (see table 1).

Rural living conditions also continued to improve. According to SSB figures, per capita income in 1984 was 355.3 yuan, an increase of 14.7 percent.² Agricultural policy in 1984, as outlined in Central Committee Document No. 1-84, focused on diversifying rural production by promoting a variety of specialized households and joint economic operations and by encouraging more peasants to engage in industrial, commercial, construction, and service trades. The success of these policies is reflected in the increases in rural industry, animal husbandry, and forestry (see table 1).

Beijing continued to increase inputs and to loosen state controls over agricultural activity in 1984. Purchases of fertilizers, insecticides, and other inputs increased 11.5 percent, and sales of agricultural equipment increased 12.7 percent (see table 2). The demand for these inputs, however, continued to exceed supply.

Grain

China's 1984 grain harvest set a third consecutive record, reaching 407 million tons and raising the nation's per capita output to nearly 400 kilograms (see table 3). Production of spring wheat, early rice, and other summer grains was up 4 million tons to 88.5

¹ These figures include the output of industries run by villages (production brigades and teams) that will in future Chinese statistics be considered as part of industrial, rather than agricultural, output. With the exclusion of industries run by villages, total output of agriculture was 306.2 billion yuan in 1984, up 9.9 percent from 1983.

² Figure based on a Chinese sample survey of 31,435 peasant households in 600 counties throughout the country

Table 1
China: Agricultural Output, 1984

	Value (billion yuan ^a)	Percent Growth From 1983
Total	361.2	14.5
Farm crops	214.1	8.9
Animal husbandry	54.3	11.7
Rural industry	70.0	36.8
Forestry	15.1	15.8
Fishery	7.7	13.2

^a Calculated in 1984 prices.

million tons. Most of the increase can be attributed to better-than-expected yields in principal producing areas despite a reduction in sown area and a dry spring (see figure 1). Early in the year Chinese press reports had predicted a decrease in grain production because of drought. But, with land being contracted under the responsibility system, more farmers made extra investments, such as increasing irrigation.

The area sown to grain in north-central China declined 1.3 million hectares as peasants switched from lower priced corn to cash crops, such as cotton and peanuts. Despite this reduction, Henan, Shanxi, and Nei Mongol (Inner Mongolia) showed increases in grain production. In northeast China the grain area increased, but yields were held down because of dry weather early in the year. Corn output in Jilin and Heilongjiang was up by more than 12 percent, but Liaoning's production fell by 4 percent. Even with this decline, the Northeast region had a net increase of 6.2 percent in total grain production. In southwest China, grain production was up by about 3 percent over the record 1983 harvest. Increases were also registered in

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Table 2
China: Agricultural Inputs, 1984

	Amount 1984	Growth Rate From Previous Year (percent)					
		1979	1980	1981	1982	1983	1984
Produced							
Chemical fertilizer ^a (million metric tons)	14.8	22.6	15.7	0	3.2	7.9	7.5
Nitrogen (million metric tons)	12.3	15.5	13.3	-1.3	3.7	8.6	10.5
Phosphate (million metric tons)	2.5	75.9	26.9	8.7	1.2	5.1	-5.3
Potash (metric tons)	40,000	-23.8	25.0	25.0	0	16.0	37.9
Chemical insecticide (metric tons)	310,000	0.8	0	-9.9	-5.6	-27.6	-6.8
Conventional tractors (units)	39,700	10.5	-22.2	-45.9	-24.5	-7.5	7.3
Hand tractors (units)	670,000	-1.9	-31.4	-8.7	49.7	67.1	34.7
In use							
Conventional tractors (units)	857,000	19.7	11.7	6.3	2.5	3.5	1.9
Hand tractors (million units)	3.29	21.7	12.2	8.7	12.3	20.2	19.6
Rural electricity (billion kilowatt-hours)	46.2	11.7	13.5	15.3	7.3	9.6	6.2
Irrigation pumps (million horsepower)	78.3	8.6	4.8	0.5	2.3	2.3	-0.2
Chemical fertilizer (million metric tons)	17.7	19.0	18.4	5.2	13.4	9.7	6.8

^a Nutrient content.

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Table 3
China: Grain Production, 1979-84

	Million metric tons					
	1979	1980	1981	1982	1983	1984
Total grain	332.1	320.6	325.0	354.5	387.3	407.1
Rice	143.8	139.9	144.0	161.2	168.9	178.1
Wheat	62.7	55.1	59.6	68.4	81.4	87.7
Potatoes ^a	28.5	28.7	26.0	26.7	29.2	30.3
Soybeans	7.5	7.9	9.3	9.0	9.8	9.7
Miscellaneous	89.7	88.9	86.1	88.5	98.0	101.3

^a For comparability, tubers are converted to grain equivalent by the weight ratio of 5 to 1.

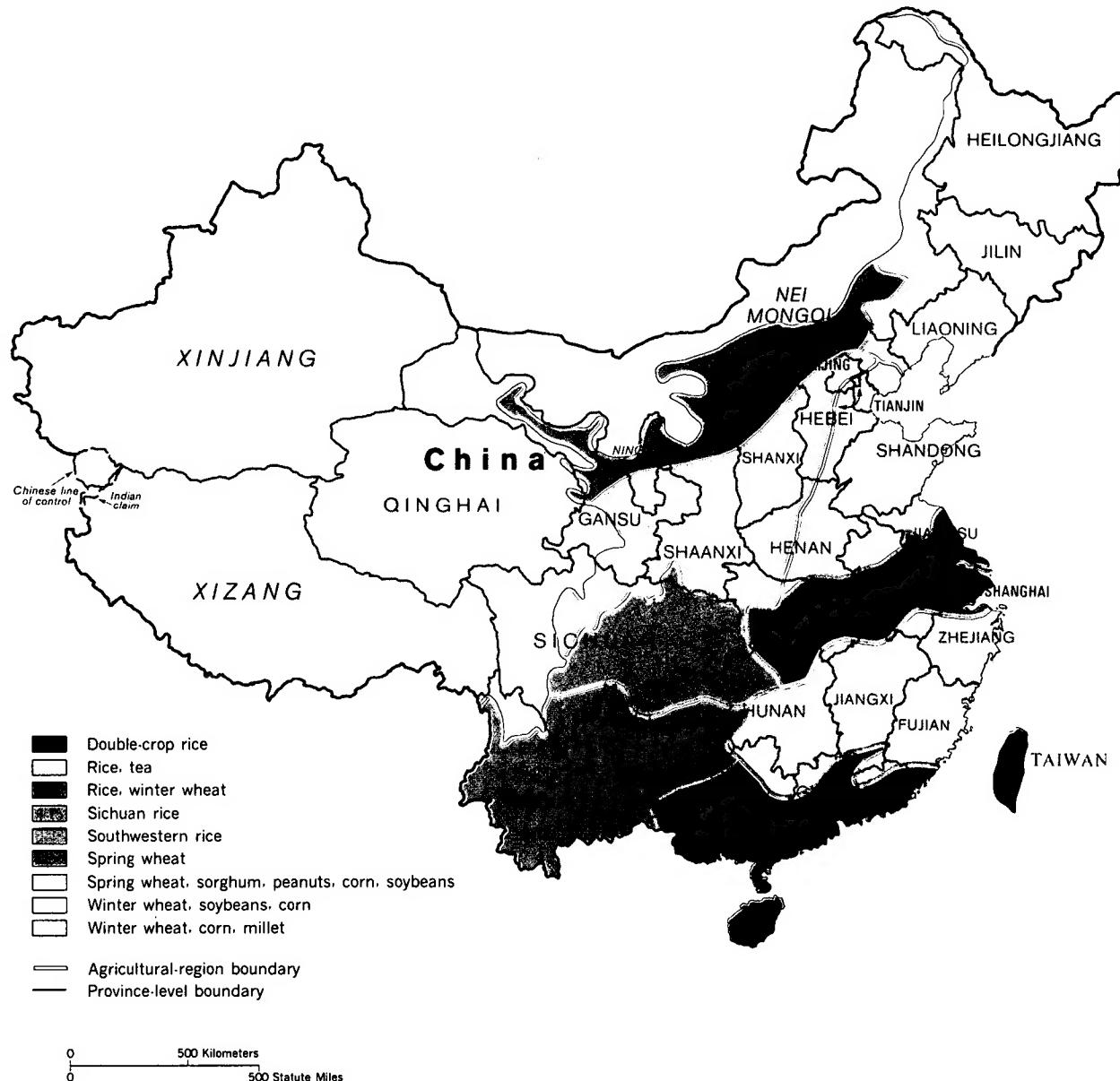
most of the 13 major rice-producing provinces of southern China. Zhejiang, Hubei, and Anhui Provinces reported increases of more than 10 percent.

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Last year's grain harvest came at a time when China already had large carryover stocks from two previous record harvests. Jilin Province, for example, reported surplus grain totaling 7.5 million tons after deducting state purchases and urban consumption. The lack of transportation and storage facilities nationwide led to makeshift storage arrangements and a serious problem of surplus grain rotting in substandard warehouses. In an effort to counteract this situation,

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Figure 1
Principal Producing Agricultural Regions



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Table 4
China: Selected Agricultural Production, 1981-84

	Amount				Average Annual Growth ^a (percent)				
	1981	1982	1983	1984	1958-80	1981	1982	1983	1984
Gross value (billion 1970 yuan)	172.0	190.9	209.0	239.3	3.2	5.7	11.0	9.5	14.5
Grain (million metric tons) ^b	325.0	354.5	387.3	407.1	2.2	1.4	8.7	9.2	5.1
Cotton (million metric tons)	3.0	3.6	4.6	6.1	2.2	9.6	21.3	28.9	32.6
Oil-bearing crops (million metric tons)	10.2	11.8	10.6	11.9	2.7	32.7	15.8	-10.7	12.3
Sugarcane (million metric tons)	29.7	36.9	31.1	39.7	3.5	30.1	24.3	-15.7	27.4
Sugar beets (million metric tons)	6.4	6.7	9.2	8.3	6.4	0.9	5.5	36.8	-9.8
Jute, ambari hemp (million metric tons)	1.3	1.1	1.0	1.5	5.8	14.8	-15.9	-3.9	46.1
Silk cocoons (thousand metric tons)	311.0	314.0	340.0	357.0	5.8	-4.6	1.0	8.2	5.0
Tea (thousand metric tons)	343.0	397.0	401.0	411.0	4.4	12.8	16.0	0.8	2.6
Aquatic products (million metric tons)	4.6	5.2	5.5	6.1	1.6	2.4	11.9	5.9	11.0
Hogs (million head, yearend)	293.7	300.8	298.5	306.1	3.3	-3.8	2.4	-0.7	2.5
Sheep and goats (million head, yearend)	187.7	181.8	167.0	158.2	2.8	0.2	-3.2	-8.2	-5.2
Large animals (million head, yearend)	97.6	101.1	103.5	108.3	0.6	2.5	3.6	2.3	4.7

^a Based on unrounded numbers.^b Includes potatoes, converted on a grain equivalent basis of 5 to 1.

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Beijing has promoted corn exports and has urged farmers to raise more livestock and to develop food-processing industries.

Industrial Crops

Cotton output reached 6.1 million tons last year—up 32.6 percent—giving China an exportable surplus (see table 4). Cotton stocks are reportedly equal to one year's domestic consumption. Several factors contributed to the excellent crop:

- More investment and better management by peasants. Farmers made extensive use of fertilizers before sowing and nearly doubled the area—840,000 hectares—covered with plastic mulch.³
- Favorable weather conditions in major crop areas.
- Higher quality seeds used more widely in major cotton-growing areas, such as Shandong Province.

• The announcement this year of an extension of standard contracts for the use of collective land by peasant households from 5 years to a 15-year period. Beijing hopes this will encourage peasants to make long-term production plans and use resources more efficiently.

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To manage the increasing supplies of cotton, authorities plan to build additional storage for 1.5 million tons of cotton by the end of 1986 and to form a new trade corporation to increase exports.

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Sugar output also increased in 1984 as a result of good weather and expanded area. Sugarcane production was up 27 percent, while sugar beet production fell almost 10 percent. The decrease in beet production was mainly the result of a 14-percent reduction in acreage because farmers encountered problems in crushing, transporting, and storing 1983's record harvest.

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³ Plastic mulch is used to control weeds and soil temperatures.

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Cotton and Grain Exports in 1984 and Prospects for 1985

China's exceptionally good harvests for the past six years allowed it to become an important grain and cotton exporter in 1984. According to the Chinese Ministry of Foreign Economic Relations and Trade, China exported 3.4 million tons of grain and 200,000 tons of cotton last year. [redacted]

China's cotton exports for the first quarter of 1985 total 61,000 tons, up 35 percent over the same period in 1984. Beijing now supplies more than 60 percent of Hong Kong's cotton imports and is aggressively pursuing other markets by offering a variety of financial arrangements and below-market prices. [redacted]

We expect exports of cotton to grow slowly over the long term, however, as China attempts to resolve problems with quality, such as poor seed strains and cleanliness. China's cotton exports also are hampered by inadequate ginning, baling, and packaging equipment, port congestion, and poor internal transportation. These problems have already caused contract defaults and delays in exports, and we believe such problems will continue for at least three years. [redacted]

Efforts are being made to correct these conditions, however. For example, Hubei Province has produced the first machine to make 480-pound bales of cotton—the standard size on the international market. China is also seeking to buy modern cotton ginning equipment from foreign suppliers. We believe the supplies of exportable cotton may also be limited by recent policy changes that abolish bonus payments to cotton farmers and discontinue bonus prices for above-quota production. [redacted]

Although corn exports in calendar year 1984 were only about 1.5 million tons, we believe continued low prices and upgraded quality may allow total corn exports to reach 4 million tons in 1985, making China a net grain exporter. In the first quarter of 1985, China exported 1.4 million tons of grain, 3.5 times the amount for the same period last year. In February 1985 China signed a one-year trade agreement to supply Japan with 1.5-2 million tons of corn. Beijing has also contracted 1 million tons to South Korea and at least 1 million tons to the Soviet Union. [redacted]

China's increased corn exports will probably be a short-term phenomenon, mainly because of plans to expand the domestic mixed feed and livestock industries. Grain exports may also drop because of recent changes in export policies that could increase export prices and reduce available supplies. For example, China National Cereals, Oils, and Foodstuffs Import and Export Corporation (Ceroilfood) officials are pressuring the central government to suspend corn export licenses from the special economic zones, arguing that the lack of central control will lead to continued defaults on contracts. This change may discourage production because provinces and special economic zones will not be allowed to earn foreign exchange through grain exports. [redacted]

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Grain Imports Decrease in 1984 and Continue To Drop in 1985

China's 1984 grain imports dropped sharply from 12.9 million tons in 1983 to 9.8 million tons in 1984, primarily as a result of continued good domestic harvests. Reflecting its confidence that domestic supplies will continue to improve, Beijing allowed its long-term grain agreements (LTAs) with the United States, Argentina, and Australia to expire unfulfilled in December.¹ Although China's 1984 purchases of US wheat rose 6 percent over 1983, they were still 2 million tons below the LTA commitment of 6 million tons. This slight increase in purchases of US grain in 1984 apparently was an attempt by Beijing to deflect US unhappiness over its failure to meet LTA commitments. Imports from Australia also showed an increase in 1984, probably to make up the shortfall in 1983 sales caused by drought (see figure 2). There were no Chinese grain imports from Argentina in 1984, even though China was Argentina's second-largest wheat market in 1983 with sales of 3 million tons. The drop was caused by quality and shipping problems early in the year, at which time Ceroilfood informed Argentina that purchases would not resume until the problems were resolved. [redacted]

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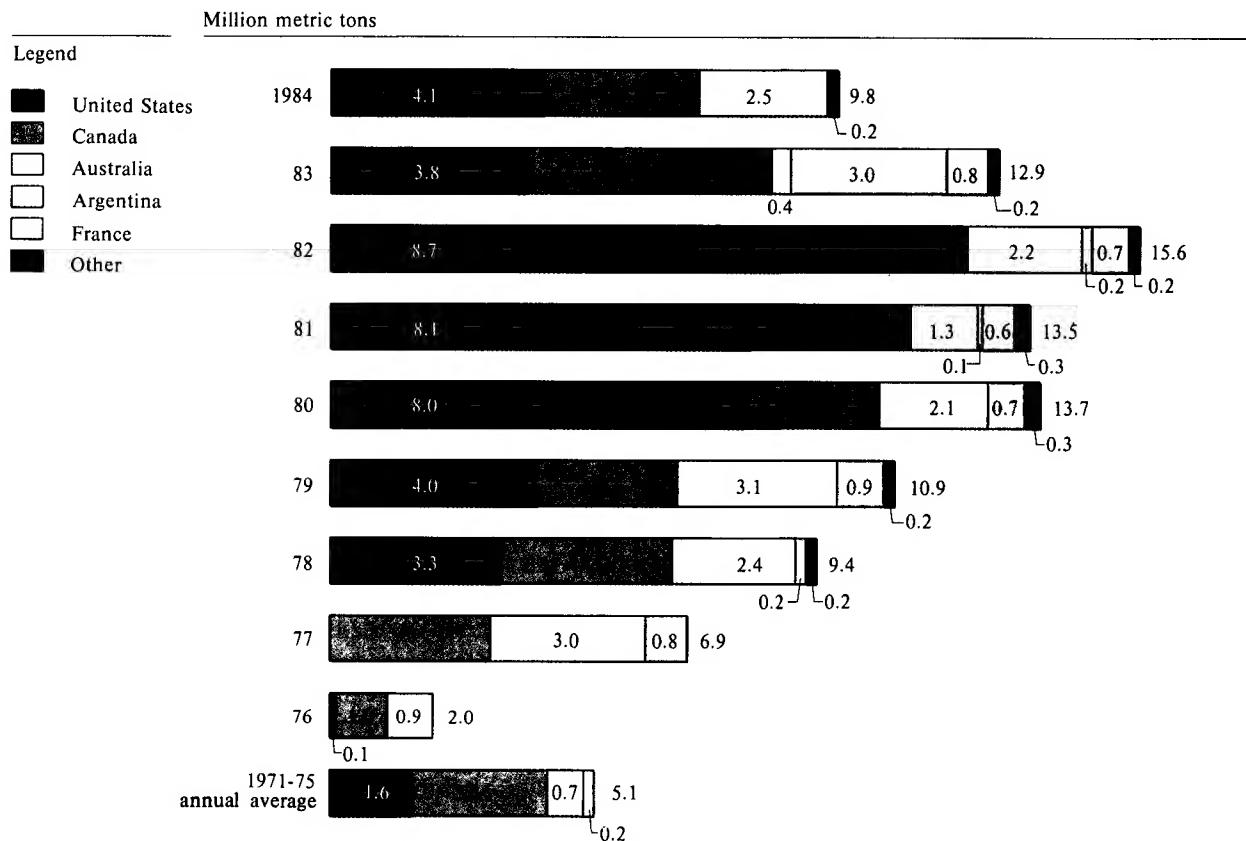
¹ Canada has the only existing LTA with China. It expires in August 1985 and is not likely to be renewed. [redacted]

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Figure 2
China: Imports of Grain, by Source, 1971-84



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Because of the record 1984 crop, we believe China's grain purchases will remain depressed in 1985, and surpluses will be exported when possible. Beijing has purchased roughly 2.5 million tons of grain from all sources thus far in 1985, only about 180,000 tons of this from the United States. [redacted]

The decline in Chinese grain imports may be reversed in future years, however, because Beijing is both reducing government grain purchases and boosting livestock production. And, although Chinese grain imports are down, other agricultural imports, such as livestock and fertilizer, will be increased to upgrade Chinese agriculture. [redacted]

New Agricultural Reforms for 1985

As in previous years, Beijing has used the first central document of the year to focus priority attention on agricultural reform. In an effort to reduce the increasing surplus of grain and cotton and to limit growing government subsidies to agriculture, Beijing has announced that it will cut back on both the amount and the average price of state agricultural purchases this year. Starting in January, production contracts replaced state quotas and Chinese peasants must now

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sell any above-contract production on the free market or keep it for their own use. For example, state contracts for cotton purchases will be limited to only 4.2 million tons this year, which we expect to be well below production. An average of 97 percent of cotton production was procured between 1978 and 1983. In some cases, textile factories will be contracting directly with farmers for certain cotton types, but almost all of the out-of-plan cotton will probably be in surplus as a result of overproduction.

State purchases of grain will be 75-80 million tons under the contract system, down from 1984 purchases of roughly 100 million tons. Beijing evidently considers this amount of grain as adequate to supply urban and grain-deficit areas. Prices on the free market will be allowed to float, but, if the grain price falls too low, the state will purchase grain to prevent its price from decreasing too far. The base price will be the quota price paid in the previous year. The state will no longer purchase nonstaple products such as vegetables, pork, chicken, fruit, and aquatic products. These steps are all designed to lessen the strain that six consecutive bumper harvests have placed on the centralized procurement, marketing, and storage systems.

Grading standards are being revised and procurement prices adjusted to better reward the production of quality grain, oilseeds, and cotton. Contracts are to stipulate the prices paid for different qualities of products.

Tobacco is the only major agricultural product that can be sold only to the government this year. Two changes will affect procurement prices and focus peasant attention on quality and quantity this year:

- Prices will be increased by roughly 20 percent for top-quality leaf and reduced for lower grades.
- The price paid to the farmer for above-contract production will be subject to a 20-percent discount.

Outlook for 1985 Crops

China's agricultural production this year will depend to a great extent on the new policies and agricultural price reform. During the readjustment period of converting grain areas to other crops, production of grain will probably decline. Beijing, also uncertain of

the results from the new reforms, announced that 1985 grain production will fall 2 million tons, mainly because of a 2.5-million-hectare reduction in grain acreage. Beijing has established a total grain production target of 405 million tons, and, on 26 April, an article in the *China Daily* stated that a grain acreage drop of 2.5 million hectares will result in a reduction of 15 million tons of grain. Ministry of Agriculture officials, however, predict that, if average yields increase by 4 percent, the decrease in acreage will have no adverse impact on the domestic grain supply. Much of the former grain acreage will be switched into cash crops, such as tobacco and watermelon, which yield better profits for peasants.

Wheat production for 1985 is projected at a record 90 million tons, up 2.3 million tons from the 1984 crop. Total wheat area is expected to be about the same, with the slight decline in winter wheat area being offset by higher plantings of spring wheat. Prospects for the rice crop look good, with the Sichuan Basin and most of the southwest experiencing a wet spring following a dry winter. Near-normal temperatures favored early spring growth, and the outlook is for above-normal precipitation and mildly cool temperatures. If the good weather continues, we believe this year's rice crop will be equal if not better than last year's record harvest of 178 million tons.

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